

IDAHO FORECAST DESCRIPTION

The Forecast Period is the First Quarter of 2007 through the Fourth Quarter of 2010

Last year proved to be another banner year for the Gem State's economy. Whether measured by jobs, population, or income growth Idaho has been on a roll recently. Indeed, after stalling in 2002, Idaho nonfarm employment growth has accelerated in every year since then, with its momentum pushing it to 4.6% in 2006—its strongest showing in a dozen years. A noteworthy facet of this strong showing is virtually all employment sectors posted gains last year. The state's manufacturing sector added jobs for the second consecutive year, bucking the national trend of declining manufacturing employment. The state's mining sector's payroll expanded for the fourth year in a row. The U.S. Census Bureau estimates Idaho's July 1, 2006 population at 1,466,465 persons, or a gain of 2.6% from 2005. The national population grew just under one percent last year. Not only did Idaho's population grow faster than its national counterpart, but so did the state's personal income. Idaho nominal personal income advanced nearly 8.0% last year, versus 6.3% for the nation. This increase marks the third straight year income has risen faster locally than nationally.

A notable exception to last year's economic growth honor roll was housing starts. After peaking at 23,173 units in 2005, this measure slid by 16.4% to 19,374 units in 2006. A look at the quarterly data show starts began declining after the first quarter of 2006. Specifically, there were 23,122 annual starts in the first quarter of last year, but just 14,714 starts in the last quarter. This steep decline raises concerns housing will fast become a drag on the Idaho economy. Construction employment would likely be the first victim of the housing decline. This is no trivial worry. Construction employment was a big part of last year's success, expanding by nearly 16%, or well over three times as fast as overall employment. At this pace, the construction sector accounted for one out of every four jobs gained last year. While the annual data show a healthy gain, the quarterly data show construction employment growth slowed steadily last year.

Idaho housing starts will not collapse over the forecast period. Several factors suggest this year will be the most difficult, but starts will recover to more sustainable levels by the latter years of the forecast. These fundamentals include strong population growth, healthy income and employment growth, and relatively low interest rates and housing costs. Although these factors will not push the number of starts up to 2006's record showing, they should remain respectable by historical standards. For example, the predicted number of housing starts hits its forecasted nadir of 16,314 units this year, which is virtually the same as in 2003. The number of housing starts should reach 19,245 units by 2010, which is almost as high as 2006. Unlike in 2006, Idaho construction employment will not deflect the impacts of this year's housing decline. It will decline this year and next. However, it will not collapse. When the dust settles, Idaho construction employment is forecast to be 49,950 in 2010. While this is below its 2006 apex, it is more than 4,800 higher than in 2005.

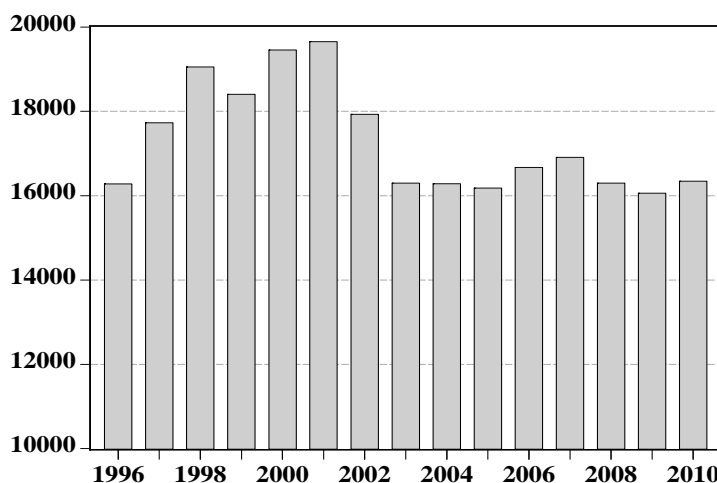
After enjoying impressive growth in 2005 and 2006, Idaho's economy is anticipated to advance more slowly over the next few years. Nonfarm employment should increase 2.1% this year, 2.0% next year, 2.3% in 2009, and 2.9% in 2010. After advancing a heady 2.6% last year, Idaho's population is forecast to increase 2.3% in 2007, 2.1% in 2008, 2.0% in 2009, and 2.2% in 2010. Idaho nominal personal income is projected to advance 6.2% in 2007, 5.9% in 2008, 6.5% in 2009, and 7.3% in 2010. While nominal personal income growth is slower than in 2006, it should continue to grow faster than national personal income over the forecast horizon.

SELECTED IDAHO ECONOMIC INDICATORS

Computer and Electronics: Idaho computer and electronics manufacturing employment should hover between 16,000 and 17,000 jobs over the next few years. This current outlook for the state's computer and electronics sector will be viewed differently by optimists and pessimists. Optimists will point out this sector is entering a period of relative stability after suffering through one of the most tumultuous periods in its short history. This sector's employment slid from a high of nearly 19,700 in 2001 to about 16,200 in 2005. This decline largely resulted from the high-tech bubble implosion which impacted many of the state's major high-tech employers.

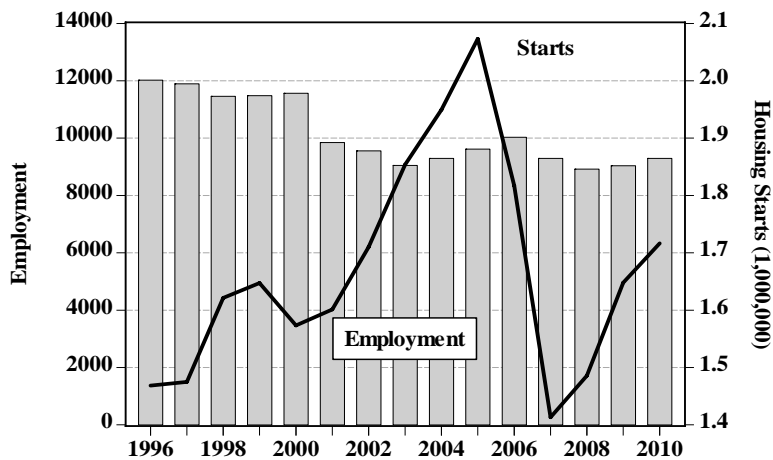
For example, Jabil Circuit halted a planned expansion and eventually closed its doors after customer orders evaporated. In 2001, MicronPC.com, SCP Global Technologies, Micron MCMS, AMI, and Hewlett-Packard also reduced their staffs. Employment plunged 8.8% in 2002. Micron Technology, the state's largest private employer, reduced its Idaho workforce by about 1,000 in early 2003, and the state's computer and electronics sector's employment base shrank another 9.1%. This sector's back-to-back job declines resulted in 3,400 fewer jobs in 2003 compared to 2001. Unfortunately, it has not experienced a quick turnaround. In fact, the recovery has been tenuous, with employment virtually unchanged in 2004 and 2005. The recovery seemed to finally make progress when employment rose to 16,670 jobs in 2006. Ironically, this is where the pessimists would point out employment was about 3,400 jobs below its 2001 peak. They would also be disappointed by the anticipated stable employment levels over the next few years because they are nostalgic for the days in the 1990s when this sector's employment averaged 7.0% annual growth. On balance, given the gut-wrenching period this sector recently experienced, even the pessimists will welcome a period of relative calm. In other high-tech related news, Hoku Materials began building its polysilicon production plant in Pocatello. Polysilicon is used by the solar market. The plant is expected to be completed in the second half of 2008 and commence shipping its products in the first half of 2009. It is estimated the plant will employ 200 employees by the late summer or early fall of 2008.

**Idaho Computer and Electronic Products
Employment**



Logging and Wood Products: The anticipated decline in the number of U.S. housing starts this year does not bode well for the state's logging and wood products sector. In recent years, soaring demand for lumber and wood products provided a cyclic employment lift that halted a string of local job declines caused by ongoing structural changes in this industry. A look at national housing data show the number of starts began to take off in 2002 and peaked at 2.07 million units in 2005. Over this same period, national wood production expanded 11.1%. Under these conditions, it would be reasonable to expect Idaho logging and wood products employment to increase. It did expand, but not until 2004. In fact, this sector actually shed about 800 jobs from 2001 to 2003. Employment did grow 2.8% in 2004 to 9,295, providing a welcome change from the previous years' losses. The respite from job losses continued through 2006, as employment climbed to over 10,000 jobs for the first time since 1999. Given the forecast for falling national housing starts, it is unlikely this level of employment will be maintained. As the demand for this sector's products retreats, supply issues will once again dominate its future. The

Idaho Wood Product Employment and U.S. Housing Starts

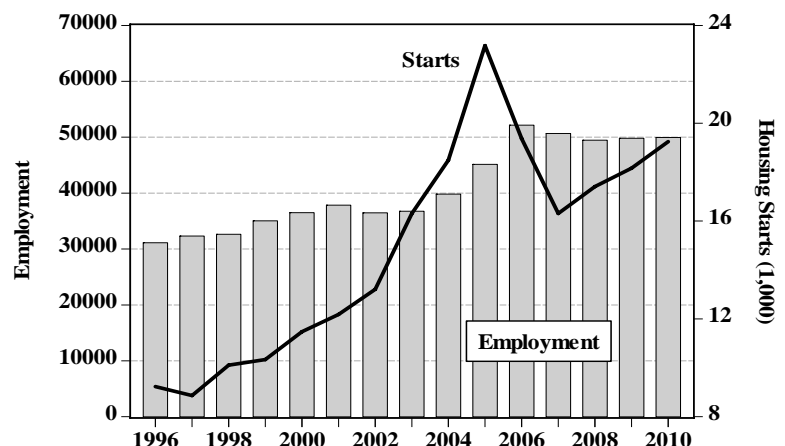


biggest challenge Idaho's lumber and wood products sector faces is the dwindling public forests timber supply. The U.S. Forest Service estimates over the ten-year period from 1994 to 2004 the harvest from Idaho national forests fell by two-thirds, from 429.7 million board feet to 143.3 million board feet. This decline represents a significant resource loss to the state. Specifically, national forests' share of Idaho's timber harvest shrank from 28.5% in 1994 to 12.3% in 2004. This decline has been particularly hard on the state's older, less efficient mills. Approximately 125 jobs were lost when Boise Cascade shuttered its

Cascade, Idaho mill in 2001. About 250 jobs were lost in 2002 when the company's Emmett, Idaho mill closed. Potlatch ceased operations at its Jaype Mill near Pierce, a move that cost about 215 jobs. Louisiana-Pacific closed its Bonners Ferry mill, putting about 140 people out of work. These closings have increased the lumber and wood products sector's overall efficiency, which suggest fewer workers will be needed in the future. Despite the industry's downsizing, excess capacity remains a challenge. Strong markets in the 1990s led to heavy capital investment in this sector. As a result, it is estimated the industry can produce 20% to 25% more lumber than is being consumed in North America. These factors suggest the logging and wood products sector's employment peaked last year and will decline over the next couple of years. Specifically, it is forecast there will be 9,296 jobs in 2007, 8,917 jobs in 2008, 9,038 jobs in 2009, and 9,294 jobs in 2010.

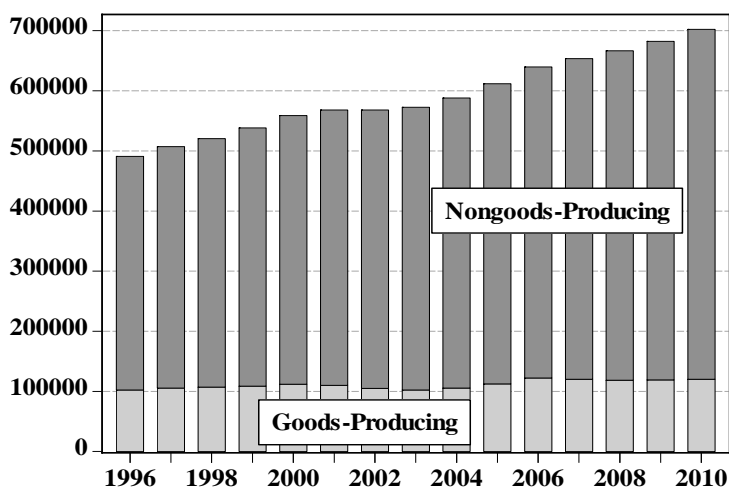
Construction: The Idaho construction employment projection has been scaled back compared to the previous forecast. In the January 2007 *Idaho Economic Forecast* it was anticipated the number of construction jobs would decline 1.5% in 2007 and 1.9% in 2008, as Idaho housing starts ebbed from a record-high of over 23,000 units in 2005 to 19,764 units in 2008. New data suggest the January forecast may have been too optimistic. Most notably, estimated housing starts were lower in the second half of 2006 than had been predicted. Specifically, it was previously projected there would be about 22,000 annualized housing starts in the fourth quarter of 2006. However, a new estimate, based on the most recent U.S. Census Bureau building permits data, suggest there were about 14,700 housing starts in the last quarter of 2006. As a result of its weaker-than-expected performance in last year's second half, Idaho housing starts average 19,374 in 2006, which is about 1,400 lower than had been predicted in January 2007. Interestingly, Idaho construction employment did not experience a decline last year. However,

Idaho Construction Employment and Housing Starts



this is not to say construction employment was immune from the impact of falling housing starts. This can be seen in higher frequency employment data. Job growth slowed from a remarkable 33.2% annual rate in the first quarter of 2006 to a 1.8% annual rate in the last quarter. Given these data it appears the current housing cycle has passed its peak, which raises questions about how the construction sector will perform in the near future. The number of Idaho housing starts is expected to decline by 15.8% in 2007 to about 16,300 units, which is nearly 3,800 lower than in the previous forecast. It needs to be pointed out, that while housing starts are lower than previously projected, they do not collapse. For example, the predicted number of housing starts hits its forecasted nadir of 16,314 units this year. While this is about 3,000 less than in 2006, it is virtually identical to the number of starts in 2003. Idaho construction employment is expected to fall 2.9% this year. Again, some perspective proves useful. Employment hits its cyclical bottom of 49,464 in 2008, but this is about 4,300 higher than in 2005. Fundamentals suggest the state's housing sector will gradually recover over the forecast period. These include strong population growth, healthy income and employment growth, and relatively low interest rates and housing costs. Bolstered by these factors, the number of housing starts should rise to 19,245 units in 2010, which is within 1,000 units of the previously forecasted amount. Construction employment is forecast to rise to 49,950 jobs in 2010, compared to the 50,242 jobs predicted in January 2007.

Idaho Nonfarm Employment



Nongoods-Producing Industries:

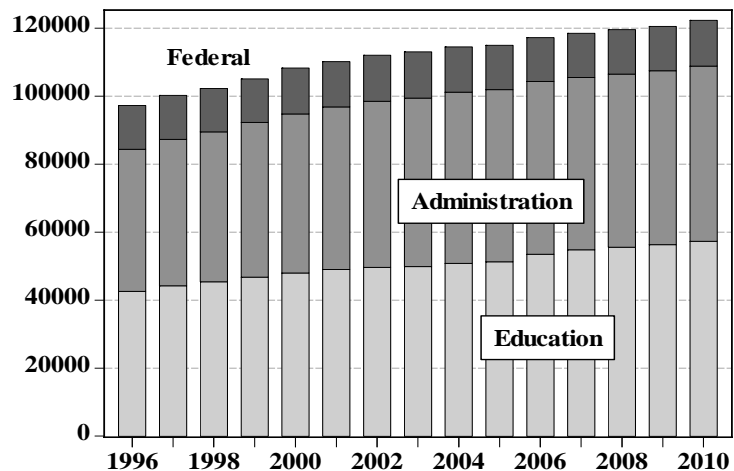
Idaho's largest private employment sector, nongoods, will also be its fastest growing sector over the forecast period. This is consistent with its most recent performance; this sector accounted for roughly two-thirds of last year's job gain. Its importance should come as no surprise given its huge size and because it includes some of the state's star performing industries. Industries in this sector can be divided into two categories: services and trade. The services category, with 292,706 employees in 2006, is the larger of the two. There were 107,570 trade jobs in Idaho last year. The services category

consists of information services; financial activities, transportation, warehousing, and utilities; professional and business services; education and health services; leisure and hospitality services; and other services. Trade is divided into retail and wholesale categories. Services employment has traditionally been the faster growing of the categories, advancing an average of 3.2% annually over the last five years versus 1.9% for trade employment. One of the services category's strongest performers is professional and business services. This category's employment should expand an average of 4.1% per year over the next four years. Other strong performers include education and health services and leisure and hospitality services. An interesting trait of the former is that it is driven more by demographics than economics, so it is relatively immune to business cycle swings. This category should add jobs at a 3.3% average annual pace over the forecast period. The leisure and hospitality category will expand at a 3.5% rate. Aggregate services employment is projected to increase 3.4% per year. The trade sector's employment should grow an average of 3.8% per year. Overall private nongoods-producing employment is forecast to expand an average of 3.5% annually through 2010.

Government: After cooling during the first half of this decade, Idaho's population growth seems to have gotten its second wind during its second half. The Gem state's population swelled by nearly 30%, or about 2.5% per year, during the 1990s. However, most of this growth came in the early years of the decade, with growth peaking in 1993 at 3.5%. After 1995, annual population growth slipped beneath its decade average. From 2000 to 2004, the state's population advanced just under 2% annually. However, it jumped to over 2.5% growth in both 2005 and 2006, and it is expected to grow by at least 2.0% annually thereafter. This rate of population

growth should cause government-related employment to expand slowly, but steadily, over the forecast period. State and local government employment is predicted to advance 1.1% annually over the forecast period. This sector can be broken out into two components: education and noneducation employment. Classifying the total number of jobs in this manner shows the education component will increase faster than the noneducation segment. This prediction is consistent with the fact that the median age in Idaho is lower than the national median age. Education employment should grow about 1.7%, versus the noneducation's 0.3% forecasted annual rate. Interestingly, federal government employment in Idaho is forecast to grow slightly faster (1.2%) than state and local employment. However, almost all of this increase results from hiring for the 2010 census. If the forecast period was terminated before 2010, state and local government employment advances faster than federal employment, 1.0% per year versus 0.4%. The slower federal job pace in these years reflects anticipated future federal budget austerity measures. The U.S. Air Force has accelerated its plans for Mountain Home Air force Base per the Base Realignment and Closure Act of 2005. The original plan was to replace the base's F-16J fighters with F-15Es between 2009 and 2011. However, the first F-15Es have already been transferred to the base, with the rest expected to arrive by the fall. It is estimated 400 jobs will eventually be lost due to this change. The current forecast does not include this impact because the actual number of jobs that will be lost and the timetable of these losses have not been finalized. The impact will be included as more information becomes available.

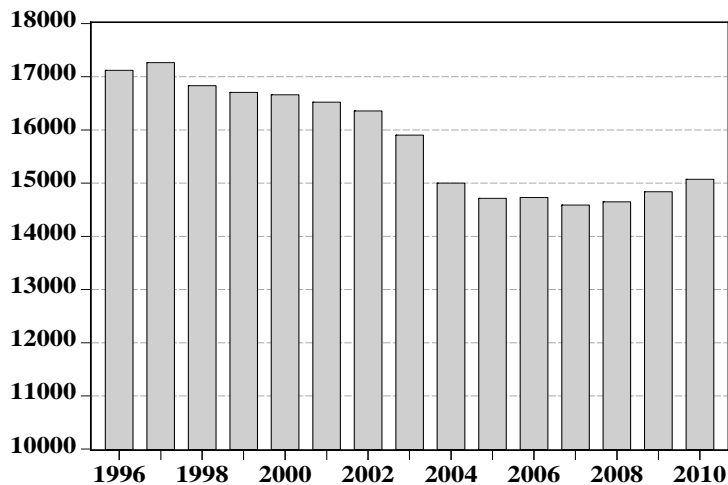
Idaho Government Employment



Mining: The cooling U.S. economy makes it unlikely the Idaho mining sector's recent string of employment gains will continue. From 2002 to 2006, the number of mining jobs increased from 1,758 to 2,371. This gain was primarily fueled by rising metal prices. For example, the spot price of silver more than doubled from \$4.60 per ounce in 2002 to \$11.62 per ounce in 2006. According to the U.S. Department of Labor, the wholesale price index for metal and metal products jumped 44.4% over the same period. However, further price increases are expected to be more subdued, with the WPI for metal and metal products rising just 6.6% from 2006 to 2010. As metal prices stabilize, Idaho mining employment is forecast to decline to 1,958 jobs by 2010. It needs to be emphasized most of the risks to this forecast are on the upside, given this sector's current level of activity. The Idaho Department of Commerce and Labor recently reported that Hecla Mining is considering a capital outlay of up to \$200 million at its Lucky Friday Mine near Mullan. This investment could boost its silver production by 80%. In addition, Hecla Mining is contemplating the potential for new mines in Idaho's Silver Valley because it believes the Silver Valley is one of the most under-explored silver mining districts in the country. The Coeur and Galena mines were purchased last summer by U.S. Silver Corp. The company plans to spend

\$1.5 million this year to restart the ore-processing mill at the Coeur Mine and explore for silver and lead ore. The mine has been closed for a decade. The Galena Mine and mill were operating at the time they were purchased and employ about 140 workers. Timberline Resources plans to begin exploration drilling at its Snowstorm Mine. Sterling Mining Co. recently revitalized the boilers and steam heating distribution system at the historic Sunshine Mine and is currently renovating its ore-processing facilities. The company expects to commence processing ore late this year or early next year.

Idaho Food Processing Employment



Food Processing: Food processing is one of the state's cornerstone industries. Its importance can be measured both in terms of employment and output. According to Idaho Department of Commerce and Labor data, this sector had 14,731 jobs in 2006, making it the state's second largest manufacturing employer. The computer and electronics manufacturing sector is the largest with 16,670 jobs. The value of food manufacturing output accounted for more than half (55.7%) of the total Idaho nondurable manufacturing output from 1997 to 2004 and about 2.6% of the state's total gross domestic product.

While 2.6% of output may appear to be a small part of the economy, it masks the state's dependence on this sector. Its relative importance can be seen when it is compared to its national counterpart. Food processing accounted for just 1.6% of U.S. economic output. Clearly, Idaho's economy is more dependent on food processing than the nation. A similar argument can be made for employment. Food processing employment accounted for 2.3% of the state's nonfarm jobs in 2006, while it accounted for just 1.1% of national nonfarm employment. Given this sector's importance, the recent string of local food plant closures has been troubling. For example, nearly 360 jobs were lost when unfavorable business conditions caused the J.R. Simplot Company to close its Nampa meat packing plant in the fall of 2003. In addition, the J.R. Simplot Company shuttered its Heyburn potato processing plant that was built in 1960 and since then had run continuously. More recently, the Swift and Company beef processing plant fell victim to the embargo of Canadian beef imports into the U.S. Concerns over mad cow disease restricted imports to animals under 30 months old. The Nampa plant processed older animals and was not able to get enough animals to keep operations viable. About 400 jobs were lost when the company permanently closed the plant. Fortunately, there are signs the state's food sector is improving. Although some plants have closed, new plants are opening. Gossner Foods, Inc. opened a new cheese manufacturing plant in Heyburn on land formerly occupied by the J.R. Simplot plant. Marathon Cheese is building a \$27-million plant in Mountain Home that will employ 250 workers. The plant's employment should climb to twice that many jobs in five years, making it one of Elmore County's largest employers. Swift's Nampa meat processing plant that closed in the summer of 2005 has been reopened by XL Foods, Inc. It is anticipated that once the plant is running at full capacity it will replace the jobs lost from Swift's closure. After declining for nearly a decade, Idaho food processing employment is expected to stabilize. Specifically, the number of jobs is forecast to gradually increase from 14,731 in 2006 to 15,072 in 2010.